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THE NEW YORK CLEARING HOUSE.

BY WILLIAM A. CAMP, MANAGER OF THE NEW YORK CLEARING
HOUSE.

ABOUT the year 1773 the bankers of London began a system of exchanging their checks and securities at one place, for the purpose of reducing the amount of real money necessary in the settlement of the transactions represented by them.

The clearing-house method thus introduced met with a great opposition from many of the large bankers in that city, which was gradually overcome : the present system was introduced, and is now practically the same in its methods as that of over one hundred years ago. Little is now known of the amount of its operations, nor are authentic records to be found, as indeed they do not exist.

It was not until after the organization of the New York Clearing House, which instituted the custom of keeping a complete record of its transactions (reported daily) and also a weekly report to the public of the average condition of each bank member of the Association (an arrangement that proved most desirable to the general public and the business community), that a similar system, although considerably abbreviated, was adopted and is continued to the present day in London.

It is a matter of surprise to many that London's average daily transactions (with the exception of one or two years) have been less than those of New York, but that is accounted for, in the opinion of the writer, by the different methods of business.

The certified check system in use here, and the general use of checks for payments in all kinds of settlement, large or small, largely increases the aggregate of clearings and constitutes an element of safety.

The percentage of actual money used by the banks of this city is very small, while in London the Bank of England notes are the principal medium.

Previous to October 11, 1853 (the date of the organization of the New York Clearing House Association), the banks doing business in the city of New York were subject to great risk, inconvenience, and loss of time in effecting their settlements with one another under the methods then prevailing.

Each bank was obliged to keep a ledger account with every other bank, involving a large number of entries daily, the settlements between them being made by cashiers' drafts every Friday; while the distance between some of them was also a serious difficulty.

As the number of banks and the amount of their business increased, it became apparent to all that some plan or system should be devised which would remedy the evil, and avert not only the delay but the risk involved in daily transactions. After much study by leading spirits among the bank officers the present clearing-house system was adopted, and put into operation as an experiment, with the result of marked success, and it has since proved so valuable as to be recognized as a necessity.

When organized, its object was simply (as the constitution states) "to be the effecting at one place of the daily exchanges between the several associated banks, and the payment at the same place and day of the balances resulting from such exchanges." But it was destined to develop into a tower of strength in times of financial distress, and a source of mutual protection to its members at all times.

Even the most sanguine and enthusiastic of its projectors could not foresee how soon the crucial test of its usefulness was to be applied, nor how well it would bear the strain. Within a very few years after its conception and formation it even became a powerful factor in the financial administration of the Government. Upon the breaking out of the Civil War in 1861, the banks of New York, by combination and equalization of their resources, were enabled, through the facilities afforded by the Clearing House, to unite in advancing to the United States Government \$150,000,000, which at once restored its declining credit and enabled it to equip and arm its newly-formed military forces and provide for its other immediate requirements. Independently

of the great advantages such a system affords the banks in their dealings with each other, experience has proved it to be, in times of emergency, a power for the suppression and avoidance of financial panics, unequalled in the history of this country or in that of the world, as instanced notably in 1873, 1886, and 1890, and on several other occasions.

It was asserted by a prominent bank president, at a meeting of the Association, during the panic of 1884, that the influence of the New York Clearing House in this country was greater than that of the Bank of England in Great Britain, and those experienced in its history accord with that opinion. That the methods employed are perfect is evidenced by the rapidity with which its enormous transactions are performed and the absolute correctness of its results. Hence, it has become proverbial that the Clearing House is in its results always correct; for while of course it can, and does, make errors, they are, through its perfect system, always discovered in time to prevent delay or loss.

Every bank, not later than half-past ten o'clock each morning, can know its exact condition for the day, and consequently regulate its business accordingly. The balances resulting from the morning exchanges are settled daily, at half past one o'clock, in specie or legal tender notes, thus completing the settlement of each bank for the day.

The records and statistics of the office are voluminous and complete, and any information pertaining to its business or transactions, for the past thirty-eight years, can be obtained from these records by any bank entitled to such information.

A committee of five, selected from our ablest and most experienced bank officers, compose what is styled the Clearing House Committee, who are empowered by the Association, in case of necessity, to take prompt action in any or all matters affecting its interests.

The average daily Clearing House exchanges per year, for the past ten years, have been \$115,218,234.79; the highest daily average for any one year during that period, being in 1881, amounted to \$159,232,190.86. The annexed table, showing the yearly transactions, forcibly illustrates the effects upon the business of the country of the expansion and contraction of the currency and the effects of panics and speculations.

TABLE.

THE EXCHANGES, BALANCES, WITH AVERAGE DAILY EXCHANGES AND BALANCES OF THE ASSOCIATED BANKS OF THE CITY OF NEW YORK FROM 1854 TO 1891.

Year ending Sept. 30.	No. of Banks.	EXCHANGES. Amnt. brought to C. H.	BALANCES. Paid in money.	Average daily exchange.	Average daily balances.
1854	50	\$5,750,455,987.06	\$297,411,493.69	\$19,144,504.94	\$988,078.06
1855	48	5,362,912,098.38	289,694,137.14	17,412,052.27	910,565.38
1856	50	6,906,213,328.47	334,714,489.33	22,278,107.51	1,797,724.16
1857	50	8,333,226,718.06	365,313,901.69	26,968,371.26	1,182,215.64
1858	46	4,756,664,386.09	314,238,910.60	15,393,735.88	1,016,951.40
1859	47	6,448,005,956.01	363,981,682.56	20,867,533.19	1,177,913.96
1860	50	7,231,143,056.69	380,693,438.37	23,401,757.47	1,232,017.60
1861	50	5,915,742,758.06	353,383,944.41	19,269,520.38	1,151,057.77
1862	50	6,871,443,591.20	415,530,331.46	22,237,681.53	1,344,758.35
1863	50	14,867,597,848.60	677,626,182.61	48,428,657.49	2,707,252.39
1864	49	24,097,196,655.92	885,719,204.93	77,984,455.20	2,866,405.19
1865	55	26,03,334,341.89	1,035,765,107.68	84,796,040.20	3,373,827.71
1866	58	28,717,146,914.09	1,066,135,106.35	93,541,195.16	3,472,752.79
1867	58	28,675,159,472.20	1,144,963,451.15	93,101,167.11	3,717,413.80
1868	59	28,484,288,636.92	1,125,155,236.68	92,182,163.87	3,642,249.93
1869	59	37,407,028,986.55	1,120,318,307.87	121,451,392.81	3,637,397.10
1870	61	27,804,539,405.75	1,036,484,821.79	90,274,478.59	3,365,210.46
1871	62	29,300,986,682.21	1,209,721,029.47	95,133,073.64	3,927,665.68
1872	61	33,844,369,568.39	1,428,582,707.53	109,884,316.78	4,638,255.54
1873	59	35,461,052,825.70	1,474,508,024.95	115,885,793.58	4,818,653.67
1874	59	22,855,927,636.26	1,286,753,176.12	74,692,573.97	4,205,0.5.73
1875	59	25,061,237,902.09	1,408,608,776.68	81,399,470.26	4,603,296.65
1876	59	21,597,274,247.04	1,295,042,028.82	70,349,427.51	4,218,377.94
1877	58	23,289,243,701.09	1,373,996,301.68	76,358,176.06	4,504,905.90
1878	57	22,508,438,441.75	1,307,843,857.24	73,783,746.54	4,273,999.53
1879	59	25,178,770,690.50	1,400,111,062.86	82,015,539.70	4,560,622.35
1880	57	37,182,128,621.09	1,516,538,631.29	121,510,224.25	4,956,008.60
1881	60	48,565,818,212.31	1,776,018,161.58	159,232,199.86	5,823,010.36
1882	61	46,552,846,161.34	1,595,000,245.27	151,637,935.38	5,195,440.54
1883	63	40,293,165,257.65	1,568,983,196.15	132,543,306.76	5,161,128.93
1884	61	34,092,037,337.78	1,524,937,993.93	111,048,981.55	4,967,201.93
1885	64	25,250,791,439.90	1,295,355,251.89	82,789,480.38	4,247,069.39
1886	64	33,374,682,216.48	1,519,565,385.22	109,067,588.94	4,965,899.95
1887	64	34,872,848,785.90	1,569,626,324.77	114,337,209.13	5,146,315.82
1888	64	30,863,686,609.21	1,570,198,527.78	101,192,415.11	5,148,191.89
1889	64	34,796,456,528.87	1,757,637,473.47	114,839,820.23	5,800,783.74
1890	65	37,669,686,571.76	1,753,040,145.23	123,074,139.12	5,728,889.36
1891	64	31,053,698,770.04	1,584,635,499.88	111,651,471.39	5,195,526.21

Total Exchanges since organization, October 11, 1853..... \$950,317,307,349.29
 " Balances since organization, October 11, 1853..... 42,424,129,850.12
 " Transactions for 38 years..... 992,741,437,199.41

The Clearing House, when organized in October, 1853, included every bank in the city, in all at that time fifty-two.

The conservative requirements of the system soon revealed weakness in the management of eight banks and these were obliged to liquidate in consequence of their inability to meet the immediate demand upon them for their daily settlements; a demonstration that their methods of business were unsound, and consequently unsafe. The result was, as shown in the table, a reduction of the total business of the Clearing House for the second year, but this gradually increased until the panic of 1857 caused a reduction in the following year of nearly fifty per cent. in the aggre-

gate transactions, the volume of which was about restored the following year.

The excitement over the Presidential election of 1860 again caused a large falling off in the amount of business. The passage by Congress of the National Currency Act the year after immediately expanding the circulation, increased the volume of business in proportion to the issue of National Bank currency until 1873, when the financial panic of that year (the result of overtrading, especially in railroad enterprises) again showed its effects in an enormous reduction of business, from which it did not recover until the resumption of specie payments by the United States Government on the 1st of January, 1879, which increased the business from \$22,500,000,000 in 1878 to \$48,565,-000,000 in 1881.

The effect of the failure of two or three banks in 1884 from bad or criminal management, notably the Metropolitan and the Marine National, also seriously reduced the amount of transactions through the Clearing House; but a rapid recovery of the financial condition of the banks, by prompt action of the Association, demonstrated its wisdom and the power of concerted action. Surely, never was the truth of the motto that "In union there is strength" more aptly illustrated than in the history of this great financial brotherhood.

Its strength lies principally in the plan known as the Loan Committee system, devised originally by able men, members of the Association, and improved upon from time to time by experience, until now it seems, when put into operation, a power so strong as to at once by the restoration of confidence avert the disaster of a financial panic. This plan consists in the issuance to banks requiring them of certificates of the Loan Committee (who are selected for their judgment and experience), based upon stocks, bonds, or bills receivable approved by the committee, with a margin of not less than 25 per cent., and the bank's obligation in addition. These certificates, bearing interest, and having the guarantee of the Association, and available for the settlement of balances at the Clearing House, make a perfectly safe as well as profitable security for the members of the Association, at the same time removing pressure upon such banks as need only temporary relief, by converting their collateral and bills receivable into an equivalent to a cash asset.

They have invariably accomplished the object of their issue, and in a brief period have always been retired and cancelled without loss. It is only when banks are actually solvent that such relief is extended. This was instanced in November, 1890, when three banks suddenly found themselves unable to meet promptly, as required by the Association, their Clearing-House balances. They were assisted by individual banks to the extent required for that day ; their condition was then examined by the committee, and two of them being found perfectly solvent were afforded the aid requisite for a continuance of business ; but the condition of the other, the North River Bank, not being satisfactory, further assistance was refused it, whereby the public was assured that if a solvent bank should suffer temporary stringency it would be aided and protected by the Association, while only scant courtesy could be expected for one whose methods and condition should be proved upon examination to be unsound.

To demonstrate how effective is the safeguard which this system affords as a means of mutual protection it is only necessary to call attention to an attempt recently made upon the securities and resources of a certain bank in good standing and credit by a party of unscrupulous bank-wreckers. Every business man in New York must remember with what marvellous celerity their schemes were brought to an abrupt termination and they themselves summoned before the bar of justice. So long as they were contented to devote their attention to outside banks their plans prospered, but almost the very day they presumed to trifle with a bank connected with the Clearing House Association their plans were frustrated.

Before any of the conspirators were aware that they were even suspected, the committee was sitting in special session and probing their actions to the bottom. The conservatism of the New York Clearing House is especially manifested in the fact that, while most of the clearing houses in the United States resort to transfers of balances in their settlements, this Association has never, except in the matter of loan certificates, accepted any other medium than legitimate gold coin or legal tender money.

This brief description of an institution whose operations and influences are only thoroughly understood or appreciated by those familiar with banking and finance may convey to the uninitiated some idea of its value and importance as associated with

the banking interests of this city and of the whole country, to the proper administration of which it has become almost indispensable.

Great credit is due, as is justly recognized by the members of the Association, to those bank officers who have so ably served from time to time upon the loan committees, and also upon the Clearing House committees, for the performance of their arduous and responsible duties without compensation of any kind, and purely from a devotion to the interests of the Association, which was necessarily for the public good. The value of their labors is beyond estimate; panics have been averted by their judgment and prompt action; an enormous depreciation in values of all kinds prevented to an amount which cannot be calculated; and many banks which are now prosperous have been saved from failure or liquidation.

WILLIAM A. CAMP.